

The Honorable Cliff Stearns
In Defense of Republicans: A Fair Look at the Causes of the Financial Crisis
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Mr. Speaker,

Our current financial crisis, which is now global in scope, was triggered by the bursting of the U.S. housing bubble and particularly by the deteriorating quality of subprime mortgages that were bundled into toxic securities and sold all over the country and around the world. It was the housing crisis and mortgage meltdown that led us to the worst financial crisis our country has faced since the Great Depression.

In examining the roots causes of the housing crisis, particularly the policies that led to the creation of the housing bubble that would inevitably burst at the seems, it is important to focus on the facts instead of the partisan blame game that often ensues here on our House floor.

To be fair, blame can be placed on both Democrats and Republicans for either supporting or simply going along with some of the bad housing policies that led to the implosion of government sponsored enterprises (GSEs) Fannie Mae and Freddie Mac and the subsequent collapse of our housing market. Democrats blame eight years of inaction and deregulation by the Bush Administration, and Republicans blame the vigorous enforcement of the Community Reinvestment Act and the affordable housing mandate placed on Fannie Mae and Freddie Mac by Democrats.

However, one of the most ardent critics of the Bush Administration and Republican policies in general is the Chairman of the House Financial Services Committee, Representative Barney Frank. Mr. Frank has spent two days this week on the House floor blaming Republicans and President Bush for the recession and for every problem our economy is currently facing, including the mortgage meltdown.

However, in examining the causes of the mortgage meltdown and ensuing financial crisis, it worthwhile to take a look at the facts and what has actually been said and advocated by certain members of this House. Given Representative Frank's leading role in harshly criticizing Republican policies, we must do our due diligence and recall Mr. Frank's role as a

member and Chairman of the House Financial Services Committee and an advocate and supporter of failed GSEs Fannie Mae and Freddie Mac.

Mr. Speaker, here are some interesting facts.

In 2000, Representative Frank stated that Republican concerns about the stability of government sponsored enterprises Fannie Mae and Freddie Mac were "overblown" and that there was "no federal liability there whatsoever."

Two years later, Mr. Frank went even further stating, "I do not regard Fannie Mae and Freddie Mac as problems. I regard them as great assets."

Looking back, these statements are nothing short of ironic. In 2007, Mr. Frank became Chairman of Financial Services and he apparently changed his rhetoric, arguing that he had long been in favor of reforming Fannie and Freddie and blamed the lack of reform on Republicans and President George W. Bush.

This isn't a fair argument, Mr. Speaker.

Democrats in general have been longstanding and ardent defenders of out-of-control GSEs Fannie Mae and Freddie Mac, whose liberal mortgage lending policies and flawed structure of privatized gains and socialized losses greatly contributed to our current housing crisis and subsequent economic crisis.

Last year, American taxpayers were forced to bailout Fannie Mae and Freddie Mac to the tune of almost \$200 billion and are on the hook for the GSEs \$5.4 trillion in debt and other liabilities. Let us recall that it was Chairman Frank who encouraged Fannie and Freddie to guarantee more "affordable" mortgages, which we all now know led to the mortgage market being inundated with dangerous subprime and Alt-A loans.

The Democrats also pushed for an increase in the conforming-loan limits in order to allow Fannie and Freddie to guarantee and securitize larger mortgages, and Democrats pressured regulators to ease up on their more stringent requirements for capital. All of these factors contributed to the bursting of the housing bubble.

The Democrats also played an additional role in pushing the risky housing policies that led to the housing crisis. The Federal Housing Enterprises Financial Safety and Soundness Act of 1992, also known as the GSE Act, contained an "affordable housing" requirement which is what ultimately led Fannie and Freddie to acquiring over \$5 trillion in home loans over a 16 year period. Let's recall that in 1992, Democrats were in control of both the House and Senate, and the GSE Act was a Democratic priority.

Aggressive enforcement of the Community Reinvestment Act (CRA) of 1977, created under a Democrat Congress and President, was also a major contributing factor of the mortgage meltdown and ensuing financial crisis. From 1977 to 1991, the CRA was responsible for \$9 billion in local lending commitments, and following the implementation of the Democrat's "affordable housing" mandate, CRA lending skyrocketed. In 2001, the director of the federal Office of Thrift Supervision candidly said, "Our record home ownership rate, I'm convinced, would not have been reached without CRA and its close relative, the Fannie/Freddie requirements."

So Mr. Speaker, it is clear that aggressive enforcement of Community Reinvestment Act as long advocated by the Democrats, coupled with the Democrat's affordable housing mandate on Fannie Mae and Freddie Mac certainly played a major role in fueling the housing bubble. These are facts.

Additionally, between 1993 and 2007, just before the near collapse of Fannie and Freddie, the government backed GSEs acquired \$1.2 trillion of loans from banks and other lenders, and from 1997 to 2007, Fannie and Freddie acquired \$2.2 trillion in subprime loans and securities backed by toxic subprime loans. Altogether, 50% of the GSEs high-risk loans are estimated to be Community Reinvestment Act loans.

The Democratic Party has been the torchbearer of the Community Reinvestment Act and the affordable housing mandate on Fannie Mae and Freddie Mac, which led to our housing crisis.

Today, the House of Representatives will take a vote on a broad financial regulatory reform bill sponsored by Chairman Barney Frank. This bill seeks to change almost every aspect of our economy and financial markets, and yet ironically it does nothing to reform Fannie Mae and Freddie Mac, which were placed into government conservatorship last year and are being propped up by American taxpayer dollars.

Unfortunately, the Frank financial regulatory reform bill perpetuates the failed policies of the past and fundamentally restructures the nation's free market system, placing it firmly in the hands of big government. This legislation will expose taxpayers to further exploitation by making permanent the policies used to bailout politically connected firms like Fannie Mae, Freddie Mac and AIG, while restricting access to credit and increasing the costs of credit products used by small businesses on main street.

The Frank legislation expands the powers of the very agencies that failed to catch the problems that created the financial crisis and rewards a Federal Reserve that pursued irresponsible credit policies and that ineffectively conducted its regulatory supervision. This bill also blunts market discipline through government guarantees that protect creditors against loss and authorizes the taxation of business without the approval of Congress.

The Republican Substitute to Mr. Frank's bill phases out taxpayer subsidies of Fannie Mae and Freddie Mac over a number of years and ends the current model of privatized profits and socialized losses. I have long advocated winding down and privatizing Fannie and Freddie, and I am proud to support these reforms.

Additionally, the Republican Financial Regulatory Reform Plan puts an end to the TARP program and prevents future bailouts of financial institutions by creating a new chapter in the bankruptcy code for non-bank financial institutions. This protects taxpayers from covering the greed and excesses of failing firms. The Republican alternative also increases civil and criminal penalties for fraud, establishes a council to issue uniformed consumer protection rules, and reforms the over-the-counter derivatives markets.

Given Mr. Frank's harsh and constant criticism of Republican policies and his eagerness to blame the Bush Administration for the financial and housing crises, I find it shocking that his financial regulatory reform bill contains no reform of GSEs Fannie Mae and Freddie Mac – the entities that are at the epicenter of the nation's financial crisis.

While Barney Frank and the Democrats regard Fannie and Freddie as great assets, Republicans regard them as great liabilities, and today we are on record supporting much needed reforms to these troubled government

entities while also supporting common sense reforms to our financial system.

Mr. Speaker, facts always speak louder than a partisan blame game. I wanted to share these comments with my colleagues in reply to those critics who want to shift the blame for political reasons.